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SUBJECT: FEAR AND LOATHING IN THE RUSSIAN MORTGAGE MARKET

REF: A. MOSCOW 1536
[1](#)B. MOSCOW 1501
[1](#)C. MOSCOW 1450

Summary

[1](#)1. (SBU) Continuing our series of cables on Russia's real estate sector, Econoffs met with Dmitri Galkin, Director of Mortgage Lending at BINBank, a leading retail lender. According to Galkin, although most Russians cannot yet afford mortgages, even those who can shy away from them out of fear of debt and financial naivet. He expected demand for mortgages to rise in the near future as Russians became more sophisticated about financial services. Without a corresponding increase in the supply of affordable housing, this could cause already rising prices to explode. End summary.

Mortgages Under-Utilized

[1](#)2. (SBU) Galkin told us that BINBank provides a wide range of corporate and retail banking services. Last year BINBank was recognized for its transparency by Standard & Poor's and as "the most dynamic bank of the year" by well-known Russian business journal "Company" for its expansion into Russia's regions. The bank increased its outlets from 64 to 125 and has plans to further increase the number to 150-200 this year.

[1](#)3. (SBU) Galkin said BINBank also doubled its retail loan portfolio last year, with mortgages increasing from 21 to 30 percent of all retail loans. Despite the larger role mortgages play in the bank's portfolio, he said mortgages remained drastically under-utilized. Only 7-8 percent of all apartment purchases last year were made with the help of mortgages. Galkin said 25 percent of Russians could afford a mortgage, either on their own or with the help of co-borrowers. This means many more Russians can afford a mortgage than are taking one. However, it also means that 75 percent of Russians still can not.

[1](#)4. (SBU) Galkin profiled his typical mortgage client as follows:

- Marital status: 50 percent single, 30 percent married, and 20 percent married with children
- Average income: USD 2,000 per month
- Average purchase: USD 160,000 for a 538 square foot, one-bedroom apartment in Moscow's suburbs

-- Down payment: 30 percent
-- Allowable debt-to-income ratio: 50 percent
-- Mortgage term: 15 years (BINBank's maximum) at 12.5-14.5 percent interest (USD and ruble denominated, respectively)
-- Additional fees: application fee (USD 20), property evaluation (USD 150)500), commission (1 percent of the loan), personal mortgage consultant (USD 300), bank safe rental (USD 85), realtor fees (5-7 percent of the purchase price), and insurance.

Fear and Financial Navet

¶5. (U) Galkin said there are a number of obstacles in the housing sector that were to blame for the under-utilization of mortgages. On the supply side, there is simply a lack of housing stock, especially affordable homes. (Ref. A, B) On the demand side, Galkin said the average homebuyer's fear and financial naivet prevented them from seeing a mortgage as a viable option.

¶6. (U) Galkin said Russia's history with financial crises had caused a general distrust of the overall financial system. Russians not only needed time to regain this trust, but also to be educated -- or re-educated -- on the benefits financial services, and mortgages in particular, could provide. (Ref. C)

¶7. (U) Galkin said this lack of understanding also explained a strange phenomenon in his bank's business. Despite taking mortgages with a 20-year term on average, most of BINBank's

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clients paid off their loan well before the term because they were afraid of having debt. Galkin also blamed financial navet for the fact that clients living in Russia's regions preferred to borrow in rubles just because they were more "comfortable" with local currency, even though the rate is 4 percent higher than for borrowing in USD. (Comment: The rate difference is probably even more, considering the ruble's fast appreciation. End Comment.)

Supply Response Critical

¶8. (U) Galkin predicted that over the next ten years, Russians would become more educated on financial services and more comfortable with the idea of taking on long-term debt. However, he noted that while this was good in principle, once the country's pent-up mortgage demand was unlocked, it would only widen the mismatch of supply and demand for affordable housing. The lack of housing stock would be amplified and prices would soar even higher. Galkin warned that the picture would be grim if the government did not adopt concentrated measures to increase the housing supply.
RUSSELL